1966 ANNUAL REPORT

INTERNATIONAL SHOE COMPANY / INTERNATIONAL RETAIL SHOE COMPANY / THE FLORSHEIM SHOE COMPANY
SAVAGE SHOES LIMITED / P. N. HIRSCH & COMPANY / COWDEN MANUFACTURING COMPANY / CENTRAL HARDWARE COMPANY

INTERCO
INCORPORATED

55th ANNUAL REPORT

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Annual Meeting of Stockholders
will be held at 10 a.m. on March 13, 1967
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

INTERCO
INCORPORATED

HIGHLIGHTS OF THE YEAR

FISCAL YEARS ENDED NOVEMBER 30,	1966	1965
Net Sales	$469,131,589	$421,326,429
Income before Federal and Foreign Taxes	25,068,304	21,802,518
Federal and Foreign Taxes on Income	10,034,639	9,174,790
Net Income (1)	14,597,924	12,062,065
Dividends Paid on Common Stock	4,956,846	4,292,241
Net Income per share of Common Stock	3.91	3.15
Dividends per share of Common Stock	1.40	1.20
Net Working Capital	146,084,273	139,131,000
Net Working Capital per share of Common Stock	41.35	38.92
Common Stockholders' Equity	125,818,092	118,210,079
Common Stockholders' Equity per share	$ 35.61	$ 33.07
Shares of Common Stock Outstanding	3,532,739	3,574,874
Number of Common Stockholders	14,900	15,700
Number of Employees	32,600	32,800

(1) After minority interests.
(2) 1965 restated to include Central Hardware Company.

MAURICE R. CHAMBERS

To Our Stockholders:

This is the company's 55th annual report to stockholders and the first under its new corporate name—INTERCO INCORPORATED.

The change in the nature of the company's business required a name with a broader title—one that would more appropriately identify the new corporate image. The new name was chosen because it retains a close resemblance to the original corporate name of International Shoe Company which for over 50 years has enjoyed a world-wide reputation as a company of outstanding character and integrity. The name International Shoe Company now is used as the name of one of the major operating divisions of INTERCO INCORPORATED.

The year 1966 was a year of continued progress and achievement for your company with sales and earnings showing substantial gains over the prior year. Sales were the highest in the company's history and earnings were the highest in any year since 1948.

All major areas of the company strengthened their position in the year just closed. New manufacturing facilities were completed in several locations and a number of new retail outlets were established under the company's expansion program. Elsewhere in this report you will find comments on each of the major operating divisions highlighting significant developments in their activities in the year just closed.

As a result of the continued favorable trend in earnings your Board of Directors increased the quarterly dividend rate on common stock effective January 5, 1967 from $0.35 a share to $0.40 which is equivalent to an annual rate of $1.60 a share. The quarterly dividend rate was increased a year ago from $0.30 a share to $0.35.

The operating base of INTERCO INCORPORATED was again broadened during the year by the acquisition on September 22 of Central Hardware Company of St. Louis and its subsidiary Witte Hardware Company through an exchange of stock. Central Hardware Company operates six super-market type retail hardware stores in the metropolitan St. Louis area and Witte Hardware Company is engaged in the wholesale hardware business.

We are confident that this outstanding company will add immeasurably to the future growth of your company.

Another important acquisition during the past year was Idaho Department Store Company, a chain of 25 junior department stores headquartered in Caldwell, Idaho. These stores which have been placed under the direction of P. N. Hirsch & Company were acquired for cash at the close of the first quarter.

These acquisitions together with the internal expansion of existing divisions are another step forward in our objective to build a well-balanced, diversified company and to steadily improve the return on capital invested.

The major change in organizational structure which I outlined a year ago to further strengthen the corporate management and to give the same degree of autonomy to each of the company's major operating divisions has been very effective.

In connection with this reorganization, INTERCO INCORPORATED created an Operating Board which had its first meeting in April. The Board meets monthly at St. Louis headquarters and is comprised of the senior officers of INTERCO INCORPORATED and the presidents of the major divisions, each of whom reports to the board on cash flow, short and long range forecasts, return on investment and other important related matters pertaining to the division. These meetings at which there is an exchange of ideas and a discussion of each division's operations have become an effective tool in the growth and development of your company.

On December 5, 1966, a letter of intent was signed to acquire Sam Shainberg Company of Memphis, Tennessee, through an exchange of stock. The offer provides for the issuance of 410,000 shares of $2.10 cumulative convertible preferred stock with a stated value of $40 per share for the 1,257,125 shares of Sam Shainberg Company common stock outstanding. The preferred stock would be convertible share for share into the common stock of INTERCO INCORPORATED.

The Sam Shainberg Company which has a remarkable record of internal growth and a very capable and aggressive management group, has an annual volume of $40 million. This company operates a chain of 79 Shainberg and Kent junior department stores in Tennessee, Arkansas, Alabama, Mississippi, Louisiana, and Kentucky. Plans provide for continued expansion of the business through the opening of additional stores and broader geographical distribution. The company will operate autonomously as another major division of INTERCO INCORPORATED.

In making our projections for 1967 we are mindful of the many diverse factors that cloud the general economic outlook; however, we look to the new year with optimism and confidence that it will be another year of opportunity for your company.

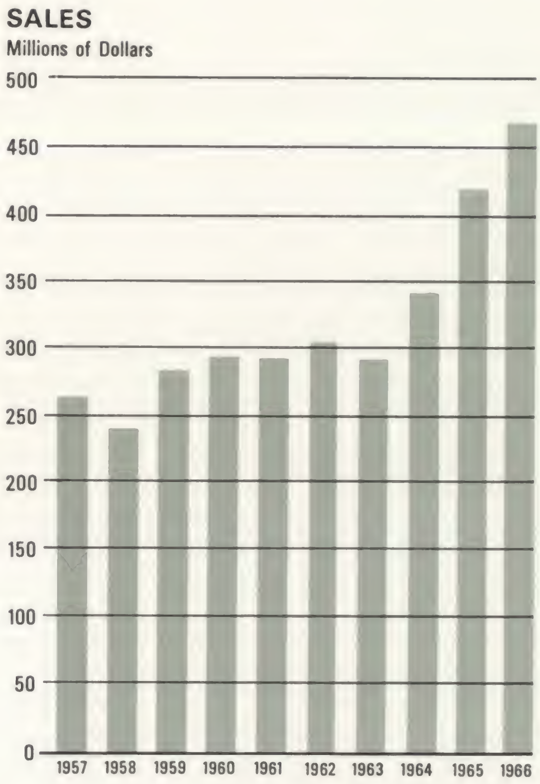
Your management is appreciative of the continued confidence of those who invest their money in our company and is grateful to the men and women in our working force for their continued loyalty.

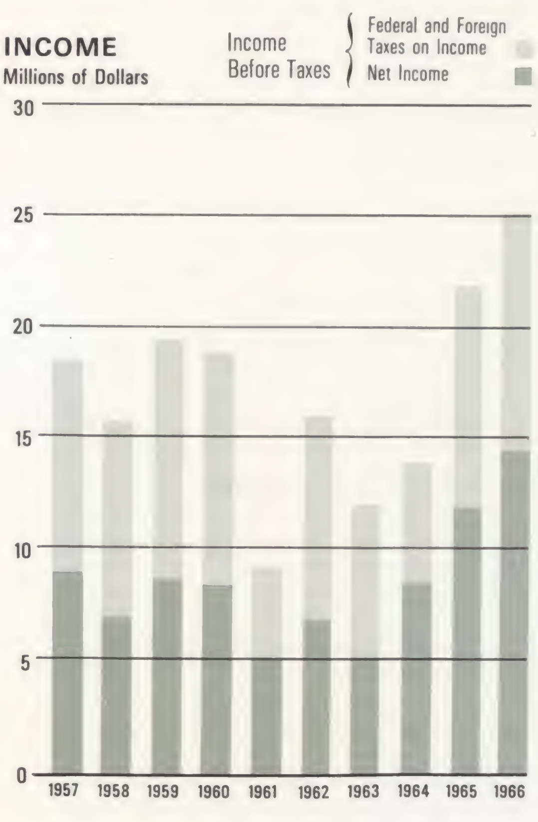
FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 9, 1967 — Chairman of the Board and President

THE YEAR IN REVIEW





Consolidated Sales and Income

Consolidated net sales of $469,131,589 set another record high for the company. These sales exceed the prior year's record of $421,326,429 by $47,805,160 or 11%. Both years include the consolidated net sales of Central Hardware Company on a pooling of interests basis. Net sales before the inclusion of Central Hardware Company were $437,475,069 compared with $391,876,910 in the prior year, an increase of $45,598,159.

Net income of $14,597,924 for the year was $2,535,859 higher than the $12,062,065 earned in the prior year. The figures for both years include the earnings of Central Hardware Company. Excluding Central, earnings were $13,202,460 compared with $10,879,325 in the prior year, an increase of $2,323,135.

Earnings per common share of $3.91 are the highest since 1948 and represent the third successive year in which earnings were greater than in the prior year. This compares with earnings of $3.15 per common share in 1965, an increase of $0.76 per share or 24%. The earnings per common share for both years include the earnings of Central Hardware after providing for the preferred dividends that would have been paid had the stock been outstanding in these years.

Sales and earnings of Idaho Department Store Company, which was acquired for cash in February, 1966, are included in the last nine months of the fiscal year.

Higher hide and leather prices prevailed throughout the year with a slight decline in prices taking place in the closing weeks of the fiscal year. The benefits arising from the reduction in these prices were offset by higher labor and overhead costs.

The company's total sales volume for the year just closed was comprised of 62% manufacturing sales and 38% retail sales. The sale of shoes at wholesale and retail accounted for 74% of the total net sales for the year. These percentages were determined before eliminating intracompany transactions.

Financial Position

The financial statements include Central Hardware Company's results of operations, consolidated, for the full year 1966 and the statements of 1965 have been restated to include this company on a pooling of interests basis.

The consolidated balance sheet at year end presents a strong financial position with working capital at an all time high of $146,084,273 and a ratio of current assets to current liabilities of 3.5 to 1.

The return on common stockholders' equity again increased over the prior year with a rate of 11.7%. This compares with 9.4% in 1965, 7.6% in 1964 and 4.9% in 1963.

Investment in physical properties amounted to $10,422,627 in 1966. Of this amount $6,976,358 was spent for replacement and expansion of existing facilities, and the balance of $3,446,269 was spent for properties of businesses acquired during the year. Capital expenditures for the company are expected to be about $12,500,000 in 1967.

During the year, a net of 52,285 shares of common stock were added to the company's treasury stock at a cost of $2,027,980. The number of shares held in the treasury at year end totaled 152,061.

The company's long-term debt increased $4,187,422 during the year ended November 30, 1966, principally as a result of the acquisition of Idaho Department Store Company. The company's principal debt remains at $50,000,000 on which the first installment is due in 1970. All other debt is due in various amounts through 1982.

Investment Tax Credit

The 7% Investment Tax Credit was suspended by Congress effective, in general, for the period from October 10, 1966 to December 31, 1967. Investment Tax Credit for the current fiscal year, earned prior to the suspension period, amounted to $251,854 and was included in income. The credit to income has averaged $199,000 a year since the law became effective five years ago.

Dividends

On December 5, 1966, your Board of Directors increased the quarterly dividend on common stock from $0.35 to $0.40 per share, effective with the January 5, 1967 payment. This is equivalent to an annual rate of $1.60 per share.

The January 5 payment completed 54 years of uninterrupted dividend payments and was the 223rd consecutive dividend to stockholders. The quarterly dividend rate was increased a year ago from $0.30 to $0.35 a share.

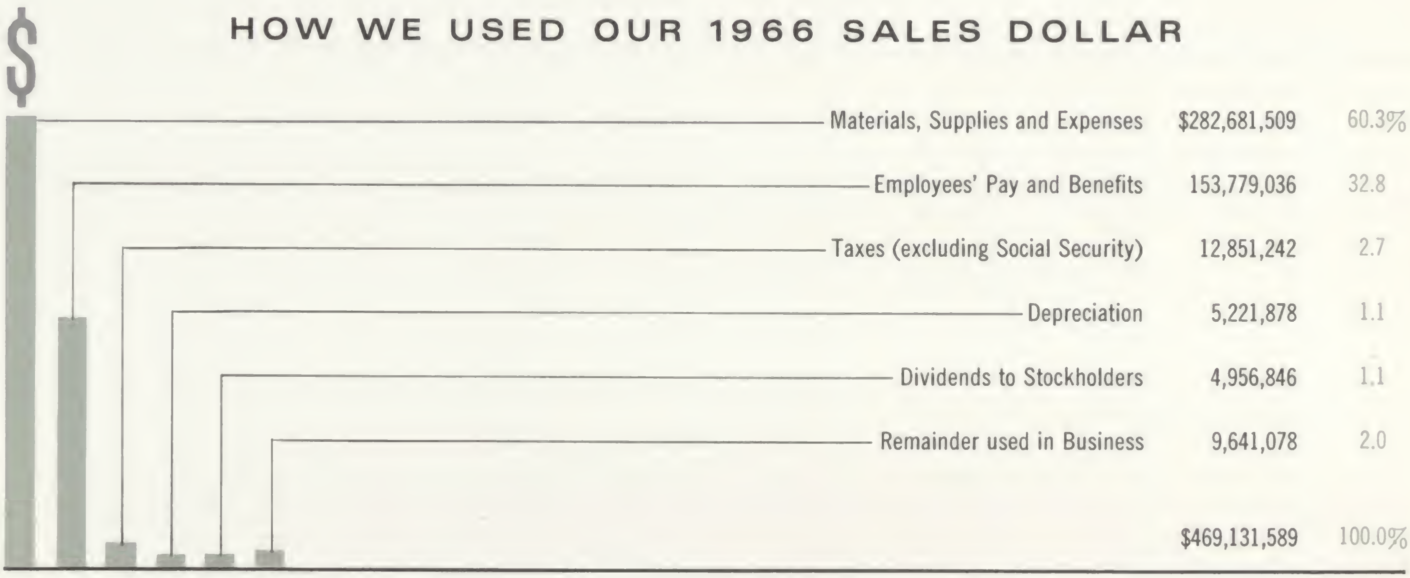
Dividends on the common stock in 1966 amounted to $4,956,846 with the remaining $9,641,078 of net income retained for use in the business.

The first dividend on preferred stock at the quarterly rate of $1.18¾ per share was paid to the holders of the 167,060 shares of Series A preferred stock on January 5, 1967.

Preferred Stock

At the February 28, 1966 annual stockholders' meeting, authorization was granted for the issuance of 250,000 shares of preferred stock.

HOW WE USED OUR 1966 SALES DOLLAR



SOURCE AND DISTRIBUTION OF FUNDS 1966

Funds were acquired from sources as follows:

Net income for year	$14,597,924
Provision for depreciation	5,221,878
Increase in long-term debt	4,187,422
Increase in deferred liabilities	479,212
Miscellaneous	338,427
New issue of Company's common stock 10,150 shares at $15 per share stated value	152,250
	$24,977,113

These funds were distributed as follows:

Expenditures for properties (net)	$ 6,976,358
Dividends paid on common stock	4,956,846
Properties of businesses acquired	3,446,269
Net increase in treasury stock	2,027,980
Increase in excess of investment over equity in subsidiaries, at acquisition	426,637
Dividends of acquired company prior to pooling	189,750
	$18,023,840
NET INCREASE IN WORKING CAPITAL	6,953,273
	$24,977,113

On September 22, 1966, 167,060 shares of Series A 4¾% cumulative convertible voting preferred stock, with a stated value of $100 per share were issued. This stock which is non-callable for eight years was issued in exchange for the 17,250 shares of outstanding common stock of Central Hardware Company. The premium on the call price is $4.75 which declines at the rate of one-seventh for each year thereafter.

The total number of shares of common stock issuable upon conversion is 363,172.

Common Stock

An increase in the authorized number of shares of common stock from 4,000,000 to 6,000,000 shares was approved at the last annual meeting. None of these newly authorized shares have been issued.

At year end there were a total of 3,684,800 shares of common stock issued with 3,532,739 shares outstanding and 152,061 shares in the Treasury.

Organizational Changes

On February 1, 1966, Webster L. Cowden, President of Cowden Manufacturing Company and Director of INTERCO INCORPORATED, was elected a Vice-President. On the same date, Edward P. Grace was elected Assistant Secretary and Duane L. Starr was elected Assistant Treasurer.

John S. Malcolm, President of Savage Shoes Limited, was elected a Vice-President on February 1, 1966 and at the annual stockholders' meeting on February 28 was elected a Director.

Harold M. Florsheim, President of The Florsheim Shoe Company since 1946, was elected Chairman of the Board and Chief Executive Officer of that company on June 21, 1966. On the same date John K. Riedy was elected President and Chief Operating Officer of The Florsheim Shoe Company and a Vice-President of INTERCO INCORPORATED.

Warren P. Metz, Director and Secretary, retired on July 1, 1966, after more than 38 years of service.

Richard H. Ely, a Director and General Counsel, was elected Secretary on July 1, 1966. Also on this date, Ronald L. Aylward was elected an Assistant Secretary.

Eugene J. Roessel resigned from the Board of Directors effective August 1, 1966.

On December 5, 1966, Stanley M. Cohen, President of Central Hardware Company was elected a Vice-President of the company.

Our Employees

New wage agreements were signed covering the largest single group of the company's employees for the two year period from October 1, 1966 through September 30, 1968. Increased wages, added retirement benefits, as well as an improved health insurance program were provided.

Wages and salaries including the cost of fringe benefits paid to the company's 32,600 employees amounted to $153,779,036 in 1966.

Employees received more than $2,000,000 in disability benefits during the year and beneficiaries of deceased employees received $926,000 in life insurance payments. Pension payments to retired employees were in the amount of $1,900,000.

Annual Meeting

The annual meeting of stockholders has been changed from the fourth Monday in February to the second Monday in March, effective with the 1967 meeting which will be held at 10 a.m. Monday, March 13 at company headquarters.

International Shoe Company

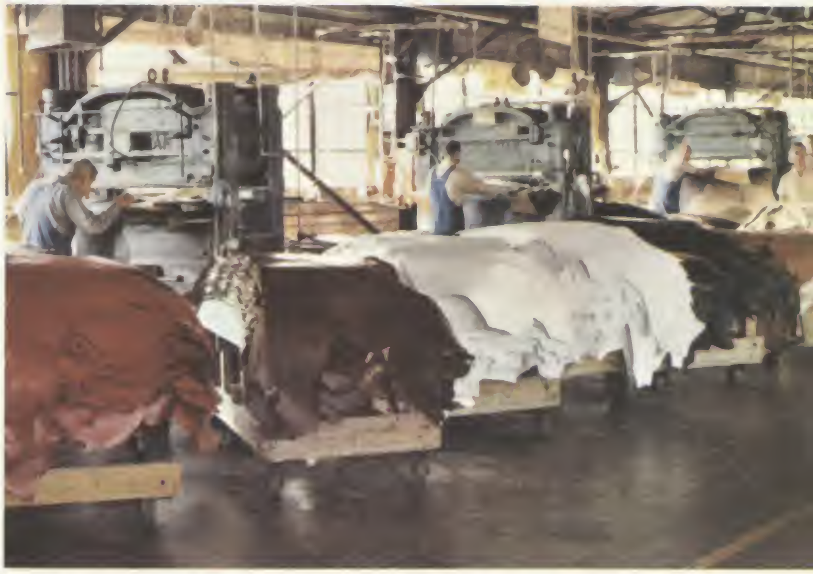
1966 has been a year of evaluation and planning to prepare International Shoe Company for the profitable growth that is anticipated over the next few years. We have substantially completed a reorganization of our management and have prepared the groundwork for intensive penetration of those areas of the consumer market which our product now enables us to serve profitably.

Continuing emphasis was placed on product improvement and the fresh new styling concepts introduced to enhance the market appeal of our footwear have received excellent acceptance.

To support this program of product improvement the Bolivar, Tennessee tannery was enlarged by 10,000 square feet and the latest type of pasting and drying equipment was installed. This new equipment, along with new finishing techniques, has substantially improved the quality of our finished upper leather.

In February, 1967, a new shoe factory at Paducah, Kentucky will begin operation. This fully air-conditioned 95,500 square foot plant will produce 5,000 pairs of men's shoes per day.

Looking ahead to the needs of the next ten years, ground was broken recently in Jefferson City, Missouri for a new distribution center. Situated on 42 acres of ground, this ultramodern customer service complex of almost 525,000 square feet has been designed to improve dramatically the service aspects of our business. Operations in the new facility will start in the last quarter of 1967 and it should be completely operational by mid 1968.



Quality leather in production at newly enlarged Bolivar, Tennessee tannery.

JOHN D. WINFREY
President

Sketch of new distribution warehouse, Jefferson City, Missouri, scheduled for opening in late 1967.

JOSEPH FOX
President

International Retail Shoe Company

International Retail Shoe Company's sales reached a new high in 1966, and earnings showed a marked improvement over the prior year reflecting the fifth successive year of increase. The better performance is attributed to a sound program of expansion coupled with a steady improvement in the results of established units.

In the past five years the company has relocated and redesigned many of its stores and leased departments. At the close of the year there were 463 shoe stores and leased departments in operation—an increase for the year of 55 units.

Leases have been signed for 17 stores and leased departments for 1967 and it is planned to increase this to a minimum of 35 by year end. These will be as attractive and functional as those pictured on this page. An important factor in the division's growth is its emphasis on leased shoe departments, most of which are in large, prestige department stores.

Today, International Retail Shoe Company is located in 45 states. In its progress it has kept pace with the suburban development and population explosion with almost 50% of its stores and leased departments in the suburbs or shopping centers, and this trend will continue.

Contributing to the improvement in the overall operations and growth of International Retail Shoe Company has been the effective strengthening of inventory control and the release of capital for investment in additional facilities.

As a retailer of medium-to-better-grade, high fashion footwear, the company has achieved a position of leadership in the retail shoe field within a relatively short period.

New family shoe store, in San Bernardino, California, one of Gude's-Barnett twenty store chain in southern California.

Interior view of Geuting's new store in metropolitan Philadelphia.

HAROLD M. FLORSHEIM
Chairman of the Board

JOHN K. RIEDY
President

New Thayer McNeil shoe store for women, on Michigan Avenue, Chicago.

Conveyorized fitting room of Florsheim's new Anna, Illinois men's factory opened in 1966.

The Florsheim Shoe Company

The Florsheim Shoe Company's sales volume was the highest in its history in the year just closed and operating results were maintained at a record level.

The company continued its leadership in the men's quality field. In 1966 Florsheim introduced a new line, the Royal Imperial, which represents a blending of the finest materials available with the highest degree of workmanship in men's shoes today.

The new men's factory in Anna, Illinois, located on Florsheim Drive, was opened in May. To meet the increased sales demand, additional men's manufacturing facilities were obtained in Cape Girardeau, Missouri.

Sales of Florsheim women's shoes at the wholesale level reached an all-time high during the past year. As a result of the growing demand for its women's shoes the company's former men's manufacturing plant in Anna, Illinois, was converted to the production of women's shoes bringing to three the number of plants producing women's shoes.

The opening of both the men's and women's retail outlets proceeded at a rapid pace, with a total of 39 new units placed in operation in 1966. At year end there were 238 stores and leased departments in operation. During the past year a number of very attractive Thayer McNeil women's shoe stores were opened, several of which include a boutique section, selling women's accessories.

The Division's foreign affiliates in Australia and France maintained their dominance in their respective men's quality field. The manufacture of Florsheim shoes in Australia, which started just a year ago, has met with overwhelming success in that country.

The Florsheim Division looks forward to continued growth in 1967, which marks its 75th Anniversary.

Newly opened 70,000 square foot Preston, Ontario shoe plant.

Savage Shoes Limited

JOHN S. MALCOLM
President

Sales of Savage Shoes Limited, our Canadian subsidiary, reached a record high in 1966. Earnings were slightly under the record established in the prior year due to general economic conditions and to non-recurring starting load costs involved in transferring production to a large new manufacturing plant and the closing of two older plants.

A contributing factor to the sales increase was the acquisition in May of London Shoe Company Limited and its subsidiaries which operate a wholesale shoe division and a chain of Canadian retail shoe stores and leased departments.

Savage entered the retail shoe field in 1965 to increase the distribution of Savage and Florsheim shoes in Canada. In line with a carefully planned retail expansion program an additional retail store and two leased shoe departments were opened last fall bringing into operation at year end a total of 18 retail units. Store openings planned for 1967 include two new Florsheim shops, one in Toronto, Ontario, and the other in Calgary, Alberta.

The London Shoe Company becomes an increasingly important factor in the retail expansion program as new opportunities for leased departments are presented.

The company's new 70,000 sq. ft. manufacturing plant was opened in Preston, Ontario in August. The plant is equipped with the most modern manufacturing facilities available, greatly improving the company's ability to produce a large volume of quality shoes at lower cost.

Production of two older plants in Preston was transferred to the new building and these facilities have been converted to warehouse space for materials and finished goods. These moves have increased Savage's manufacturing area and have centralized their warehouse activities enabling a closer control of inventories.

Barclay Bootery, London, Ontario, one of Savage's eighteen retail shoe units.

Interior view of Idaho Department Store Company's Medford, Oregon store.

P. N. Hirsch & Company

PHILIP N. HIRSCH
President

P. N. Hirsch & Company chain of junior department stores was acquired in April, 1964 in INTERCO'S first move to diversify its operations. At that time P. N. Hirsch & Company was operating 105 stores with an annual volume of $26 million.

Under a carefully planned program of expansion through internal growth and acquisition, the Hirsch chain at year end consisted of 210 stores with an annual volume of $80 million. These stores are located in 16 states in the midwest, northwest and south.

In January, 1966 the company purchased four department stores in northern California from W. R. Carithers & Sons Inc. In February the company purchased all of the capital stock of Idaho Department Store Company which operates a chain of 25 stores, headquartered in Caldwell, Idaho. These two companies which added approximately $22 million to the annual sales of the Hirsch Division, were grouped with the company's chain of Miller Stores operating in Oregon and Washington to create an expanded Northwest Division. Substantial economies have resulted from the consolidation of these units.

During the year eight stores were opened in new shopping centers in the midwest. The company is continuing its study of other midwest and northwest locations to determine the suitability of these areas for the establishment of additional stores. Emphasis is being placed on the larger units and smaller units are being closed.

At year end construction was in progress on a very attractive 110,000 square foot suburban branch of Hammel's in Mobile, Alabama, which is scheduled for opening in August, 1967.

One of the twenty-five department stores of the Idaho chain.

Piece goods cutting operation in one of eight clothing manufacturing plants.

WEBSTER L. COWDEN
President

Cowden Manufacturing Company

During 1966 Cowden Manufacturing Company continued its expansion program. Net sales increased 13 percent and were limited only by production capacity. To keep pace with increased demand a new plant was opened in February at Greenville, Kentucky, and in April ground was broken for another factory at Beaver Dam, Kentucky. To avoid costly delays, manufacturing operations were started in temporary quarters at both locations to provide a nucleus of trained operators for the new plants.

The company now employs over 3,000 sewing machine operators in eight modern factories in Kentucky. Projected sales for 1967 indicate that additional production will be needed and several sites are under consideration.

The policy of concentrating sales efforts on the large, well established retail chains and mail order houses has produced customers who are among the best known retailers in the country. These customers are supplied with fast dependable service from distribution warehouses in Kentucky, Missouri, and California.

Particular emphasis has been placed this year on the type and style of garments being produced. Production and sales have been geared to keep pace with the general change from work clothing to leisure and play garments for men and boys. In addition, a line of little boys' jeans, pants, and coordinated shirts and jackets has been added and are being manufactured at the new Greenville plant. These garments not only profitably diversify the product mix, but open an entirely new field for future development.

Cowden expects to show continuing gains in volume and profit in 1967.

Entrance to recently completed Greenville, Kentucky plant for production of new line of little boys' garments.

Central Hardware Company

Central Hardware Company and its subsidiary, Witte Hardware Company, were acquired on September 22, 1966 through an exchange of capital stock.

From its original store, opened in 1904 in downtown St. Louis, Central has grown to its present six store chain of super-market type hardware stores strategically located to serve the entire metropolitan St. Louis area.

Witte Hardware Company, a subsidiary, is engaged in wholesale hardware distribution principally to customers other than its parent company.

Central Hardware Company is unique in its field in many ways, particularly in the vast selection it offers its customers in a wide variety of hardware and related items. It has led the way in the "Do-It-Yourself" popularity that has become increasingly important to the growing numbers of the nation's homeowners. Its stores and merchandising philosophies have been continually studied and praised by national and international visitors.

Central's aggressive advertising program has made its slogans commonplace to its many thousands of customers. "Scoop to Nuts," "Tailored Lumber," "Do-It-Yourself," and "Orange Coated Expert," are all synonymous with Central Hardware Company.

The company enjoys excellent employee relations as evidenced by the large percentage of employees in its 10 year and 25 year employee clubs. To build for the future, the company is dedicated to a program of personnel recruitment and training.

The growth potential for this company is unlimited. Opportunities are being explored to profitably expand this new field of business for INTERCO INCORPORATED.

Interior view of section of one of Central Hardware's six super-market type stores.

STANLEY M. COHEN
President

Newest store, covering an acre and a half, attractively displays over 50,000 items.

Assets

November 30,	1966	1965
Current assets:		
Cash	$ 16,958,794	$ 16,840,435
Marketable securities, at cost—approximates market	4,403,786	3,618,628
Receivables, less allowance for cash discounts and doubtful accounts, $1,914,316 ($1,609,972 in 1965)	65,222,920	60,579,334
Inventories:		
Finished products and other merchandise	89,407,260	71,227,331
Raw materials and work in process	28,027,302	27,940,358
	117,434,562	99,167,689
Prepaid expenses	938,305	952,403
Total current assets	204,958,367	181,158,489
Customers' secured loans, deferred maturities	3,099,485	3,187,548
Excess of investment over equity in consolidated subsidiaries, at acquisition	7,352,056	6,925,419
Sundry investments and other assets	1,913,089	2,040,856
Physical properties, at cost:		
Land	4,426,126	4,357,866
Buildings and structures	50,598,399	46,797,149
Machinery and equipment	52,167,635	49,208,938
Lasts, patterns, and dies	1	1
	107,192,161	100,363,954
Less accumulated depreciation	58,260,945	56,633,487
	48,931,216	43,730,467
	$266,254,213	$237,042,779

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

Liabilities and Stockholders' Equity

November 30,	1966	1965
Current liabilities:		
Notes payable to banks	$ 12,314,217	$ 2,537,275
Current maturities of long-term debt	1,210,767	409,084
Accounts payable and accrued expenses	37,973,056	32,073,404
Federal and foreign income taxes	7,376,054	7,007,726
Total current liabilities	58,874,094	42,027,489
Deferred Federal income taxes	1,645,934	1,674,800
Deferred compensation	2,054,322	1,546,244
Long-term debt, less current maturities:		
4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990	50,000,000	50,000,000
Other debt payable in varying amounts through 1982	7,832,609	3,645,187
	57,832,609	53,645,187
Minority interests in subsidiaries	3,323,162	3,232,980
Stockholders' equity:		
Preferred stock without nominal or par value: Authorized 250,000 shares; issued 167,060 shares $4.75 cumulative convertible, Series A, with stated value of $100 per share	16,706,000	16,706,000
Common stock without nominal or par value: Authorized 6,000,000 shares; issued 3,684,800 shares (3,674,650 shares in 1965)	55,272,000	55,119,750
Capital in excess of stated amount	234,375	201,960
Retained earnings	75,498,988	66,047,660
	147,711,363	138,075,370
Less common stock in treasury, 152,061 shares (99,776 shares in 1965), at cost	5,187,271	3,159,291
Total stockholders' equity	142,524,092	134,916,079
	$266,254,213	$237,042,779

CONSOLIDATED INCOME AND RETAINED EARNINGS

Years Ended November 30,	1966	1965
Sales and other income:		
Net sales	$469,131,589	$421,326,429
Interest and other income	3,387,793	2,493,499
	472,519,382	423,819,928
Deductions:		
Cost of sales	329,282,685	298,570,659
Selling, general and administrative expenses	109,164,520	95,494,581
Depreciation	5,221,878	4,803,407
Interest and amortization of expense on long-term debt	2,743,075	2,531,750
Other interest and sundry charges	1,038,920	617,013
	447,451,078	402,017,410
Income before Federal and foreign income taxes	25,068,304	21,802,518
Federal and foreign income taxes	10,034,639	9,174,790
	15,033,665	12,627,728
Net income of minority interests	435,741	565,663
NET INCOME	14,597,924	12,062,065
Retained earnings at beginning of year, as adjusted for pooling of interests with Central Hardware Company	66,047,660	58,415,836
	80,645,584	70,477,901
Deductions:		
Dividends on common stock $1.40 per share ($1.20 per share 1965)	4,956,846	4,292,241
Dividends paid by pooled company	189,750	138,000
	5,146,596	4,430,241
RETAINED EARNINGS AT END OF YEAR	$ 75,498,988	$ 66,047,660

CONSOLIDATED CAPITAL IN EXCESS OF STATED AMOUNT

Years Ended November 30,	1966	1965
Balance at beginning of year, as adjusted for pooling of interests with Central Hardware Company	$ 201,960	$ —
Adjustments resulting from treasury stock transactions and issuance of stock under option plans	32,415	201,960
CAPITAL IN EXCESS OF STATED AMOUNT AT END OF YEAR	$ 234,375	$ 201,960

See accompanying notes to financial statements.

Notes to Financial Statements

(1) Principles of Consolidation

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements.

During 1966 the company exchanged 167,060 shares of preferred stock for all of the capital stock of Central Hardware Company. The exchange has been accounted for as a pooling of interests and accordingly the consolidated financial statements include the accounts of Central Hardware Company for the years 1966 and 1965, with the 1965 figures for Central Hardware Company being audited except as to beginning inventory and thus not certified. Due to the pooling of Central Hardware Company, the previously reported 1965 net sales have been increased by $29,449,519 or 7.5% and net income increased by $389,205 or 3.6% after preferred dividend requirements of $793,535.

(2) Inventories

Eighty-five per cent of the inventories are priced at the lower of cost, first-in, first-out, or replacement market. The remainder of the inventories are priced at cost, last-in, first-out (LIFO) which is below replacement market.

(3) Preferred and Common Stock

Stockholders of the company on February 28, 1966 approved the authorization of 250,000 shares of preferred stock and an increase in the authorization of common stock from 4,000,000 to 6,000,000 shares.

The preferred stock designated as "Series A $100 Convertible Cumulative Preferred Stock" bears a $4.75 annual dividend rate, has full voting rights, and is convertible into common stock at the rate of 2.1739 shares of common for each share of preferred. The stock has anti-dilution provisions and is subject to redemption in declining amounts from $104.75 in 1974 to $100.00 in 1981 and thereafter. The holders of preferred stock receive in the event of dissolution $100.00 per share plus accrued dividends.

(4) Common Stock Subject to Options

At the beginning of the year, options to acquire 113,850 shares at an average price of $25.36 were outstanding. During the year, no options were granted; options for 17,175 shares at an average price of $24.27 were exercised and options for 2,800 shares at an average price of $27.44 were cancelled. At November 30, 1966, options to acquire 93,875 shares at an average price of $25.50 were outstanding.

Of the options outstanding at November 30, 1966, 36,550 shares at $23.50 were reserved under the Restricted Stock Option Plan adopted April 21, 1959, modified and extended November 5, 1962. The remaining restricted stock options outstanding at the close of the year, 57,325 shares at an average price of $26.77, were granted by the company to executive and administrative employees at prices representing at least market value at the date of grant.

(5) Stockholders' Equity

Retained earnings of $43,810,400 at November 30, 1966 are restricted as to payment of cash dividends on common stock by the 4⅝% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $80,000,000.

Stockholders of the company at the March 13, 1967, meeting will be requested to approve an increase in the present authorization of preferred stock from 250,000 to 577,060 shares to provide 410,000 shares for the proposed acquisition of Sam Shainberg Company. In addition, stockholders will be asked to approve the authorization of 1,000,000 shares of second preferred stock and an increase in the present authorization of common stock from 6,000,000 to 10,000,000 shares.

(6) Long-term Leases

The minimum rentals on properties leased for terms of more than five years approximate $5,400,000 annually.

Accountants' Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries as of November 30, 1966 and the related statements of income and retained earnings and capital in excess of stated amount for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings and capital in excess of stated amount present fairly the financial position of INTERCO INCORPORATED and subsidiaries at November 30, 1966 and the results of their operations for the year then ended, in comformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 9, 1967

INTERCO
INCORPORATED

INTERCO INCORPORATED

10 YEAR CONSOLIDATED

YEARS ENDED

	1966	1965	1964
FOR THE YEAR			
Net Sales	$469,132	$421,326	$345,448
Income Before Taxes	25,068	21,803	14,397
Federal and Foreign Income Taxes	10,035	9,175	5,518
Net Income (1)	14,598	12,062	8,441
Dividends Paid on Common Stock	4,957	4,292	4,118
Percentage of Net Income to Sales	3.1%	2.9%	2.4%
AT YEAR END			
Cash and Securities	$ 21,362	$ 20,459	$ 25,078
Receivables	65,223	60,579	49,764
Inventories	117,435	99,168	86,287
Prepaid Expenses	938	952	916
Total Current Assets	204,958	181,158	162,045
Current Liabilities	58,874	42,027	35,249
Working Capital	146,084	139,131	126,796
Physical Properties (Net)	48,931	43,730	41,019
Other Assets	12,365	12,154	10,535
Deferred Liabilities	3,700	3,221	2,768
Long-term Debt	57,833	53,645	52,626
Minority Interests in Subsidiaries	3,323	3,233	3,304
Preferred Stock	16,706	16,706	—
Common Stockholders' Equity	$125,818	$118,210	$119,652
Shares of Common Stock Outstanding	3,532,739	3,574,874	3,585,005
PER SHARE OF COMMON STOCK (2)			
Net Income	$ 3.91	$ 3.15	$ 2.35
Dividends	1.40	1.20	1.20
Stockholders' Equity	35.61	33.07	33.38

(1) After adjustment for minority interests.

(2) Based on common shares outstanding at year end.

(3) The year 1965 has been restated to include Central Hardware Company acquired in 1966 on a pooling of interests basis.

FINANCIAL REVIEW

NOVEMBER 30

1963	1962	1961	1960	1959	1958	1957
(DOLLARS IN THOUSANDS)						
$295,615	$303,182	$294,275	$296,470	$283,261	$244,314	$266,073
12,302	16,008	9,369	18,855	19,400	15,554	18,675
6,528	8,616	4,081	10,101	10,132	7,938	9,095
5,493	7,071	5,191	8,867	9,207	7,541	9,577
4,004	4,050	6,116	6,113	6,050	7,043	8,054
1.9%	2.3%	1.8%	3.0%	3.3%	3.1%	3.6%
(DOLLARS IN THOUSANDS)						
$ 21,966	$ 16,453	$ 16,683	$ 11,634	$ 9,952	$ 12,317	$ 8,495
54,113	54,807	55,048	53,598	52,418	43,468	45,304
72,003	77,000	74,355	83,385	80,198	65,473	71,613
737	747	707	781	680	404	593
148,819	149,007	146,793	149,398	143,248	121,662	126,005
29,981	30,675	27,952	28,800	42,291	24,291	28,459
118,838	118,332	118,841	120,598	100,957	97,371	97,546
40,318	40,976	40,247	40,538	38,588	37,882	38,520
9,343	9,527	9,772	10,339	10,805	10,836	11,257
2,516	1,474	788	729	630	581	506
52,229	54,571	56,820	58,585	40,351	41,316	42,999
2,584	1,481	1,438	1,395	1,453	912	1,035
—	—	—	—	—	—	—
$111,170	$111,309	$109,814	$110,766	$107,916	$103,280	$102,783
3,281,277	3,341,470	3,397,222	3,398,022	3,395,222	3,353,718	3,353,718
(IN DOLLARS)						
$ 1.67	$ 2.12	$ 1.53	$ 2.61	$ 2.71	$ 2.25	$ 2.86
1.20	1.20	1.80	1.80	1.80	2.10	2.40
33.88	33.31	32.32	32.60	31.78	30.80	30.65

(4) The years after 1963 include P. N. Hirsch & Company acquired in 1964 on a pooling of interests basis.

INTERCO INCORPORATED

Operating Facilities

	United States	Canada	Puerto Rico	Australia	France	Total
SHOE FACTORIES	33	7	5	2	1	48
SHOE SUPPLY AND SERVICE PLANTS	12	1	1			14
TANNERIES	3					3
RETAIL SHOE STORES AND DEPARTMENTS	701	18				719
DEPARTMENT STORES	210					210
WORK AND PLAY CLOTHING FACTORIES	8					8
RETAIL HARDWARE STORES	6					6
FINISHED GOODS WAREHOUSES	17	3	1			21
	990	29	7	2	1	1,029

Directors

Officers

MAURICE R. CHAMBERS, *Chairman of the Board and President*
NORFLEET H. RAND, *Vice Chairman of the Board and Treasurer*
WILLIAM J. BANKS, *Financial Vice-President*
HAROLD M. FLORSHEIM, *Vice-President*
JOHN D. WINFREY, *Vice-President*
JOSEPH FOX, *Vice-President*
PHILIP N. HIRSCH, *Vice-President*
WEBSTER L. COWDEN, *Vice-President*
JOHN S. MALCOLM, *Vice-President*
JOHN K. RIEDY, *Vice-President*
RICHARD H. ELY, *Secretary*
EDWARD P. GRACE, *Assistant Secretary*
RONALD L. AYLWARD, *Assistant Secretary*
DUANE L. STARR, *Assistant Treasurer*

General Counsel

RICHARD H. ELY

General Offices

1509 Washington Avenue, St. Louis, Missouri 63166

Registrars

Morgan Guaranty Trust Company
New York, New York

St. Louis Union Trust Company
St. Louis, Missouri

Transfer Agents

Manufacturers Hanover Trust Company
New York, New York

Mercantile Trust Company National Association
St. Louis, Missouri

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